News Release

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FOR IMMEDIATE RELEASE

STATE CONTROLLER RELEASES PLAN TO INCREASE REVENUES TO CASH-STARVED LOCAL GOVERNMENTS

Task Force Examined Tax Policy, Land Use Planning and Accountability to Increase Revenue Flow to Local Governments by as much as $4.5 Billion -- Without Raising Taxes

SACRAMENTO, August 19, 1999 -- State Controller Kathleen Connell today released the results of a six-month task force study she convened to assist California's local governments identify reliable sources of revenue to help meet local demands. The innovative plan would restructure state and local finances to generate as much as $4.5 billion in additional revenue for local governments over an initial 10-year period without raising taxes, yet still allow the state to meet its financial obligations.

"Local governments cannot continue to operate effectively without a dedicated source of stable and sufficient revenue independent of state control and intervention," said Connell. "The past decade of chronic state budget shortfalls sentenced California's local governments to a position of desperation -- constantly waiting for a trickle of state funds in order to provide vital local services." The State Municipal Advisory Reform Team (SMART) was composed of diverse representatives of business, labor, academic and elected officials who worked creatively and cooperatively to devise a proposal that would rectify the gross imbalance between state and local revenue support.

Four key concepts drive the plan. First, the task force recommends a gradual replacement of "point-of-sale" sales tax distribution with a new formula that will encourage more responsible local planning decisions by shifting local sales tax distribution to a per capita basis. This rewards communities that invest in local housing and high-paying industries, rather than strip malls that create volume retail sales and taxes, but unfortunately provide low-paying jobs.

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To accomplish the sales tax redistribution, Connell's SMART task force devised a "90/10/100" formula. In year one, 90% of all local sales tax revenues would be apportioned among counties and cities based on their proportionate contribution to statewide retails sales the preceding year. Connell noted that, "This will protect current revenue sources, allowing local communities to honor their existing bonding requirements and other obligations tied to sales tax revenues, while gradually shifting to a population-based tax." The remaining 10% of the allocation would be based on population.

In all subsequent years, 100% of the net local sales tax gains will be apportioned by population. As statewide sales tax revenues increase over the next 20 years, projections indicate that greater portions of the sales tax will be allocated by population. According to Connell, "This will incentivize cash-starved municipalities to invest in community, housing and quality of life programs -- instead of erecting huge car malls on cheap land to attract sales tax revenue."

The second element of the plan reduces Education Revenue Allocation Funds (ERAF), an emergency action by the state in 1992 that diverted property taxes from local governments to the state in order to meet educational obligations imposed by voters through Prop. 98. The Controller's plan would reduce the ERAF baseline by approximately $450 million to $3.2 billion annually, and return this differential to local governments.

The task force proposes that the $450 million be restored through three stages. California's current state budget has already appropriated $150 million to aid localities as an ERAF offset. Another $150 million has been set aside as an inducement for the creation of a state constitutional amendment to restructure the distribution of local sales taxes. The task force believes the final $150 million could be obtained by reducing the state's portion of the property taxes, and be easily replaced within the budget since it represents less than .02 percent of $81 billion in authorized state spending this year.

Over the next decade, the plan would realize net gains in revenue totaling over $165 million for local governments in Los Angeles County; over $28 million in San Diego County; $22 million in Orange and Alameda counties; $16 million in San Francisco County; and over $15 million in Sacramento County.

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"This proposal produces net revenue gains for all areas of California," said Connell. "Local governments will remain fiscal winners well into the future as long as they focus on productive planning, responsible growth and enhancing economic development."

The final two components of the SMART plan end "unfunded state mandates" and initiate performance auditing. To end the unfunded mandates, the state would be required to produce an Economic Impact Projection (EIP) that accurately discloses the costs to local governments of any new state law or regulation and appropriate funds to pay those costs before local governments are obligated to implement them.

"The State should reverse the process of mandating new programs and increased levels of service onto local governments without a stipend to fund these obligations," said Connell. "In the future, local agencies would not be required to implement new laws and regulations without a commitment from the state for appropriate funding."

Finally, the Controller's report recommends the introduction of rigorous statewide performance auditing in order to increase the efficiency and effectiveness of the state programs administered by local governments.

The 20-member bipartisan task force was formed in February and included State Senator Richard Alarcon; Mariposa County Supervisor Doug Balmain; Former Los Angeles Supervisor Ed Edelman; Former State Senator Lucy Killea; Los Angeles County Supervisor Gloria Molina; Long Beach City Mayor Beverly O'Neill; Mayor of Davis, Julie Partansky; Monterey County Supervisor Judy Pennycook; Leonard Frank, Pardee Construction; David French, Regional Council of Rural Counties; Travis Gibbs, O'Melveny & Myers; Annelle Grajeda, SEIU; Mark Gaughan, SDGE; Pius Lee, CA Realty & Land Inc.; Dowell Myers, USC-School of Policy, Planning & Development; Mark Pisano, SCAG; George Popyack, AFSCME; Steven Szalay, CSAC; Jeff Vesely, Pillsbury, Madison & Sutro; and Tom Winfield, Brown, Winfield & Canzoneri, Inc. The report will be submitted to the Legislature and to numerous State and local trade associations and elected officials for their consideration.

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